

NEWSLINE

Savings Plus Program

Third Quarter 2001

Economic Growth and Tax Relief Reconciliation Act of 2001 Pension Reform Update - Impact to You and Your Savings Plus 401(k) and/or 457 Plan

This edition of the Savings Plus NewsLine is primarily devoted to providing information and clarification on those areas of the *Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)* that impact you as a Savings Plus Program (SPP) participant. While there is much we do know about the benefits of this important new tax law, there continue to be areas of EGTRRA that need further clarification. For this reason, some provisions contained in EGTRRA will be implemented at a later date.

Currently, the 401(k) and 457 plans have some major differences, i.e., different maximum annual contribution limits and distribution rules, as well as administrative requirements. With the enactment of EGTRRA effective January 1, 2002, many of those differences are reduced thus allowing the plans to be much more flexible. The following provides information on key areas of the new tax law. In addition, we have included several Questions and Answers on Page 5 that we hope will be helpful.

Increased contribution limits

Effective January 2002, the annual contribution limit for 401(k) plans will increase to 100 percent of compensation not to exceed \$11,000 per year. The contribution limit for 457 plans increases to 100 percent of includable compensation not to exceed \$11,000 annually*. The new law gradually raises the dollar limits on contributions to each plan by \$1,000 annually over the next five years, with a maximum annual limit of \$15,000 for tax year 2006. Beyond 2006 future increases in contribution limits will be indexed to inflation in \$500 increments.

The increased contribution limits is a significant change because it will allow participants who have both a 401(k) and 457 plan, to contribute a total of \$22,000 in 2002.

**If your annual taxable income prior to subtracting deductions to a 401(k) or 457 plan is less than \$33,000, contact SPP for assistance in determining the maximum amount you may contribute to either a 401(k) or 457.*

Our Commitment

In light of the tragic events last month, the Savings Plus Program, along with our recordkeeper, Nationwide Retirement Solutions and our plan trustee, Bank One, want to assure participants that our systems and records continued to be fully operational during the recent national crisis. All of us, along with our investment fund providers, worked diligently to ensure that financial operations would resume once the market reopened on September 17, 2001. We will continue our efforts to ensure that any disruption to our participants is avoided or minimized. Our thoughts go out to all of those personally touched by this tragedy.

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Repeal of 60-day commencement date election

Effective January 1, 2002, 457 participants will no longer be required to elect a commencement date within 60 days of their separation/retirement. Participants can elect distribution to begin at any time or defer distributions until April 1 of the year following the year in which they reach age 70½.

New limits to 457 catch-up

Currently, the 457 has a special provision that allows participants to “catch-up” contribution deductions that they may have underutilized in prior years. If eligible, this provision allows participants to contribute more than the yearly contribution maximum. Participants may exceed their yearly maximum if:

- they were eligible to contribute to the 457 plan in past years and did not contribute the maximum to either their 457 plan or a 401(k) plan, and
- they are within three years of normal retirement age

The new law increases the maximum amount for catch-up to two times the annual contribution limit in that year. However, the amount of catch-up allowed continues to be limited to the amount of underutilized deferrals in prior years.

All catch-up deferrals must be deposited in a 457 plan. SPP is in the process of revising the 457 Catch-up Worksheet and it will be available, online at www.sppforu.com by January 2002. The new limits are reflected in the table below:

Year	Contribution Limit 401(k)	Contribution Limit 457	457 Catch-Up Limit	Maximum Annual Contributions
2002	\$11,000	\$11,000	\$11,000	\$33,000
2003	\$12,000	\$12,000	\$12,000	\$36,000
2004	\$13,000	\$13,000	\$13,000	\$39,000
2005	\$14,000	\$14,000	\$14,000	\$42,000
2006	\$15,000	\$15,000	\$15,000	\$45,000

How to Take Advantage of the Increased Deferral Limits for 2002

We anticipate that many SPP participants will want to take advantage of the new annual deferral limits in 2002 for both the 401(k) and 457 plans. In order to increase your monthly SPP deduction for the 2002 Tax Year, you must initiate contribution changes by November 30th at 1:00 p.m. (PT) in order for those changes to be effective for the December pay period. Remember your December pay period check is issued January 1, 2002 and therefore deductions made from that check will apply for the new tax year.

If you are currently enrolled in only one plan, e.g., 401(k), and want to start deferrals to the other plan, you need to complete an Enrollment Agreement and send it to the Savings Plus. The form is available at your personnel office or online at www.sppforu.com. Savings Plus is seeking ways to simplify the enrollment process. Any change will be announced in a future NewsLine.

Investment Fund Changes

Franklin Small Cap Growth Fund - Name Change

The *Franklin Small Cap Growth Fund*, a sub-account of the Hartford Life variable annuity product, has changed its name to the **Franklin Small-Mid Cap Growth Fund** and expanded its investment criteria. According to information released by Hartford Life, broadening the fund's investment criteria will enable the portfolio manager to search for investments among a greater number of innovative, fast-growing companies. The fund's goal of long-term capital growth remains the same. However, SPP participants in this fund need to be aware that it is no longer considered a "small cap" fund. Depending on the current asset allocation plan for those in this fund, this change may affect their overall investment strategy. A letter detailing both the name and investment criteria change is being sent to all fund holders. Questions should be directed to Hartford Life at (800) 528-9009.

New Manager for Vanguard U.S. Growth Fund

The Vanguard U. S. Growth Fund manager was changed in June, from Lincoln Capital Management Company to Alliance Capital Management LP. The move was initiated to better meet Vanguard's performance objectives in a declining market. Alliance Capital Management has been in the money management business for 35 years, with a special emphasis in overseeing large capitalization growth funds. The new U. S. Growth team will seek to invest in superior growth companies and sectors. SPP will continue to monitor this fund's performance as well as changes to the fund's investment strategy under their new management.

New Manager for Accessor Small to Mid Cap Fund

The Accessor Small to Mid Cap Fund manager was changed in June from Symphony Asset Management to State Street Global Advisors Funds Management, Inc. (SSgA FM). SSgA FM is one of the companies of State Street Global Advisors, one of the largest money managers in the world. The move to SSgA FM was initiated by Accessor in an effort to better meet the performance objectives of it's Small to Mid Cap fund. SPP will continue to monitor this fund's performance to ensure fund objectives are met.

Important Tax Information

Participants who receive a SPP distribution in the 2001 Tax Year, will receive either a W-2, for 457 plan distributions; or a 1099-R, for 401(k) and beneficiary distributions. These tax-reporting documents will be mailed by Nationwide Retirement Solutions (NRS) no later than January 31, 2002.

"Exempt Status" Reminder

Participants who are receiving 457 periodic payments and have elected to be Exempt from Federal and/or State tax withholding, must complete a new W-4 Form for the new tax year. The W-4 Form states that your Exempt status for 2001, is only valid until February 2002. In November, NRS will mail a letter to all participants currently claiming exemption from withholding requesting a new W-4 Form. In accordance with IRS requirements, if you are currently claiming such an exemption and you fail to complete and return a new W-4 Form within the time frame specified, your future distributions will be taxed based on a withholding status of Single with 0 exemptions.

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“Age-Based Catch-Up” for participants 50 and older

The new tax law allows for a new “age-based” catch-up for participants over age 50 in 401(k) and 457 plans. However, there are a number of restrictions that must be considered when coordinating this benefit with the pre-existing 457 catch-up program currently offered by SPP and described on page 2. SPP is seeking IRS clarification on this provision and the recordkeeping requirements associated with implementing this change. Updates on the status of this provision will be announced in a future NewsLine.

Rollovers – Enhanced 457 distribution option

The new tax law also provides for increased flexibility to 457 participants by allowing 457 assets to be rolled over into an Individual Retirement Account (IRA). Keep in mind this new provision is only allowed when there is a permitting event, such as separation from employment or retirement. The table below reflects the distribution options currently available and the new 457 rollover option effective January 1, 2002.

Rollovers into SPP 401(k) and 457 plans from other defined contribution plans

The SPP currently accepts rollovers (transfers) from “like” plan types. For example, you may rollover a 401(k) with another employer directly to the SPP 401(k). The same is true for a transfer from another employer 457 plan directly to the SPP 457 plan. Currently, you cannot rollover 401(k) plan funds to a 457 plan nor can you rollover 457 plan funds to a 401(k) plan. The new tax law has a provision, which allows 401(k) assets to roll to a 457 plan and vice versa. SPP is seeking IRS clarification on this provision and the recordkeeping requirements associated with this change. Updates on the status of this provision will be announced in a future NewsLine.

Expanding the purchase of service credits

The new law permits the use of 457 assets to purchase service credits from defined benefit plans such as the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS). Currently, SPP participants may use their Savings Plus 401(k) assets to purchase these types of service

credits. The SPP will be coordinating with both CalPERS and CalSTRS on any applicable changes to the processes affecting the service credit buy back program.

Impact to those currently on distribution or who have made a distribution election for the future from the 457 plan

Because of the areas noted that still await IRS clarification we know that some of our participants may still have questions about how the provisions of the new law will affect them personally. This is particularly true for those who are currently receiving distributions from their SPP account and those who are not yet receiving distribution but who have made an election to start distributions in the future. Savings Plus, like other plan administrators throughout the country, is awaiting IRS clarification and guidance in this area.

Payment Options	401(k)	457
Lump Sum Payment	Yes	Yes
Periodic Payments	No	Yes
Purchase an Annuity	Yes	Yes
Partial Lump Sum with remainder in Periodic Payments	No	Yes
Partial Lump Sum with remainder paid as an annuity	Yes	Yes
Roll over to an IRA	Yes	Yes (Jan. 1, 2002)
Rollover to another 457/401(k) Plan	Yes	Yes

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Conclusion

While there are other provisions included in the new law that are not reflected in this article, the information provided outlines provisions of EGTRRA which impact 401(k) and 457 plans offered through the SPP. We hope the information provided answered many of the questions you might have.

Please be assured that we are working closely with our tax counsel and with NRS, our recordkeeper, to implement provisions of the new law effectively and efficiently. We are committed to keeping you apprised of new information, as it becomes available.

Question: I'm separating or retiring in 2002 and want to roll over my money into an IRA. How can I do that?

Answer: Currently, the 401(k) allows a rollover to an IRA. The new law provides this option in a 457 plan. SPP is in the process of revising the 457 Benefit Payment Application and it will be available by January 2002.

Question: I am retired, have assets in the 457, and elected to start distributions in 2002 (or some future date). Will the new tax law allow me to change my distribution date or payment method?

Answer: Currently, you may delay your distribution date and change your payout method, but only once. You cannot move up your payment date after you have selected it, as this decision is irrevocable. IRS clarification on whether the new tax law will allow you to change a previous irrevocable election is still pending. In the event the IRS allows for this change, SPP will notify affected participants of the available options.

Question: I am currently receiving distributions from my 457 account. Will the new law allow me to make any changes?

Answer: IRS clarification on whether you will be allowed to change previous irrevocable

elections is still pending. In the event the IRS allows for this change, SPP will notify affected participants of the available options.

Question: Will SPP be changing the way distributions are calculated for 457 plans based on the new life expectancy table issued by IRS in 2001?

Answer: As announced in previous NewsLine publications, SPP continues to wait for clarification and guidance from IRS on the use of the new life expectancy tables for 457 plans. Updates on the status of the regulations will be announced in a future NewsLine.

Web Site Enhancement Ibbotson Asset Allocation Model

New! Web Asset Allocation Tool

We are pleased to announce that the Ibbotson Asset Allocation Modeling Tool from the Savings Plus Investment Guide can now be used online. By taking a few minutes to answer the Ibbotson Questionnaire online, you will be able to determine your personal investor profile. This will assist you in developing your asset allocation strategy. Once you know your investment profile, you will be given the option to select an asset allocation fund that meets your personal investor profile or you may select "manage your own investments" to see a listing of the SPP fund options that match your portfolio.

To complete the process you click on the **"My Account"** tab. Select **"End Result"** to redistribute your current fund assets to match your Ibbotson profile. Please note that if you have a current holding in the VALIC Fixed Interest and/or Dwight GIC fund, you will need to process your reallocation using the **"Exchange"** option and following the prompts. It is also important to remember to change your **"Future Allocations"** to ensure that all future contributions match your Ibbotson profile.


IMPORTANT NOTICE

Password Reset

In the continued efforts to ensure the security of your account information, all SPP participants who access their accounts through the SPP web site will be required to re-authenticate their Internet profile by changing their password. Participants will be prompted to change their password through a phased implementation starting on December 10, 2001.

Changes to system passwords are frequently recommended as an excellent way to ensure the security of personal information. While we understand this may cause some inconvenience, information security continues to be of the utmost importance to both the SPP and NRS. NRS, like all recordkeeping companies is continually looking at ways to strengthen their Internet security models. As a result they are initiating this password-reset process with all of their client companies. We support this effort and want to thank you in advance for your cooperation and understanding during this process. Here are some tips when considering your new password:

- ✓ New Password and 'old' Password cannot be the same nor can they be the same as their user name/ID
- ✓ Password is case sensitive.
- ✓ Participant Passwords must be at least eight (8) characters in length and not longer than twenty (20) characters.
- ✓ Participant Passwords must contain letters and at least one number (alpha/numeric combination).
- ✓ Passwords must not contain three (3) or more repeating characters of the same letter, number or special character in succession. For example, "000", or "BBB" will not be allowed within a password.
- ✓ Passwords must not contain character series of more than three (3) characters. For example, abcd, 1234, wxyz, 9876 are not allowed.



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Contact Information

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